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Soviet oil production decline is nightmare for Gorbachev

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When President Reagan meets Mikhail Gorbachev in Geneva on Nov. 19-20, the Soviet leader may have more troubling him than U.S. space-defense research and restrictions on high-technology trade.

What almost surely will darken Mr. Gorbachev's inner thoughts, according to a number of Western experts, is that the Soviet economy is being wracked by a self-inflicted setback in the one area in which it has global supremacy.

Though the Soviet Union leads the world in energy resources and oil production, it is the only industrialized nation that still has an energy crisis.

Soviet oil production began to decline in late 1983, a bit later than predicted in a 1977 Central Intelligence Agency study. It was greeted with skepticism when, according to Maurice Ernst, then the agency's economic research director, President Carter's press-conference reference to the classified document forced its release.

The oil-production decline has accelerated, falling by 4 percent in the first eight months of this year, according to Marshall I. Goldman of Harvard University's Russian Research Center.

As a result, the Soviets have canceled sales to Western Europe of an estimated 1 million barrels a day in oil, worth nearly $10 billion a year in hard-currency earnings to a Russian economy sorely pressed for investment capital.

Mr. Goldman notes that the large drop in oil exports has meant that for the first half of this year the Soviets ran a trade deficit with France, which used to complain bitterly of its trade deficit with the Soviet Union.

Worse, from Mr. Gorbachev's viewpoint, is that at the same time Soviet oil exports are down, grain and especially corn imports from the United States are up.

Overall, what was a Soviet trade surplus with Western Europe and Japan for the last three years has turned into a deficit. "A trade swing of this magnitude undoubtedly hurts the Soviet Union," says Mr. Goldman.

Oil is the critical factor because it is the Soviet Union's No. 1 generator of foreign currency and pays for food and technology imports from the West.

The impact on the Soviet economy has strategic implications for President Reagan and General Secretary Gorbachev at their encounter next month, according to some U.S. officials.

Speaking on a not-for-attribution basis, these officials say a continuing hard-currency loss of the magnitude the Soviets are now experiencing could spell trouble if Mr. Gorbachev, who needs oil-export earnings to help finance his top-priority plan for modernizing Soviet manufacturing, feels compelled at some point to risk an adventure in, say, the Mideast.

One faction in the Reagan administration, represented by Richard N. Perle, assistant secretary of defense, has been counseling the president to take advantage of the Soviets' economic problems, sources say, by hanging tough at Geneva on trade concessions and the Strategic Defense Initiative.

Sources say the argument being made to the president for keeping up the pressure on Moscow is not based on the simplistic notion that the Soviet economy is on the verge of collapse.

Selling the Soviets more technology, it is argued, would make it easier for Moscow, in spite of its hard-currency crunch, to build better weapons sooner instead of diverting more investment into technology catch-up.

Normally, the Soviet Union earns more than half its hard currency from exporting about 1.7 million barrels of oil a day to noncommunist customers, mainly in Western Europe, and a similar amount to East European members of Comecon, the communist trading bloc, and to Cuba.

But last month the Soviet Union had to tell its West European oil customers that it would cancel or delay shipments of up to 80 percent of the crude oil and up to 70 percent of the gasoline, heating oil and diesel fuel contracted for delivery this month.

"The surprise is that in allocating those export cuts, the Soviets have steered what oil they had to East Europe and cut way back on exports to the West," says Thane Gustafson, director of Soviet studies at Georgetown University's Center for Strategic and International Studies. "But conventional wisdom in the West held that the Soviets cannot afford a sharp drop in the hard currency they need for grain, machinery and technology imports from the West."

What this reveals about the political thinking of the Gorbachev leadership is that it puts the stability of the Soviets' client states in Eastern Europe at the "absolute top of the list of priorities," says Mr. Gustafson.

Further confirmation of this Gorbachev emphasis, he says, came earlier this week with the naming of Nikolia Talyzin to head Gosplan, the Soviet state planning organization. Mr. Talyzin, 56, who was also made one of four first deputy prime ministers, was the Soviet Union's chief permanent representative to Comecon.

None of this means, however, that the Soviet Union will relax pressure on its East European clients to substitute more Soviet natural gas for oil.

But just as surely, the East Europeans, who depend on Russia for 90 percent of their oil needs, will convince the Soviet Union that any cutack would be disastrous, says Ed A. Hewett, a Soviet specialist at the Brookings Institution. "The East Europeans aren't bad at playing that game," Mr. Hewett adds.

What could drive Mr. Gorbachev to the brink is if world oil prices, now nearly $28 a barrel, slide to $24 a barrel or even to $20, as some oil analysts predict. This would further reduce earnings from what little oil the Soviets manage to export.

Beyond allocating export cutbacks, the Soviet leadership has to turn around its domestic oil production, which for the first time since 1979 has fallen below 12 million barrels a day.

"Mr. Gorbachev thinks he can get Soviet production back up above 12 million barrels a day. He's wrong," says Mr. Hewett.

"He could if he threw enough money at it, but he wants to direct investment in the technological reformation of the Soviet economy, in renovating factories with a new generation of machines that are computer-controlled," Mr. Hewett says.

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The problems of poor Russian-made equipment in Siberia's failing oil fields and leaking pipes that carry natural gas — the Soviets' second main foreign-currency earner after oil — is symptomatic of Soviet industry in general.

Like his predecessors, Mr. Gorbachev says he will modernize manufacturing. But unlike them, he wants to install state-of-the-art, Western-made machinery in the old factories rather than build new factories to house old machines.

To buy that machinery from the West, he needs to solve his oil problem. For the time being, he seems inclined to blame the problem on the people who manage the Soviet system rather than the system itself.

After a visit last month to western Siberia's Tyumen Province, Russia's No. 1 oil-producing region, Mr. Gorbachev lamented publicly that the "oil production lag is not being reduced but is increasing."

"Management should long since have anticipated present problems and looked forward to implementing a program suited for the new stage in working western Siberia's fields. But this was not done in time," Mr. Gorbachev said.

He accused party and government bureaucrats in Tyumen of deciding "to compensate for their own shortcoming by increasing the producing burden on the giant fields." In other words, to meet production quotas set in Moscow, the fields were milked too fast, which caused them to age prematurely.

In a warning reminiscent of President Carter's lugubrious alarums in the 1970s about America's energy well running dry, Mr. Gorbachev, speaking last month of Russia's own situation, said, "It has now become clear that the time of 'golden gushers,' of 'easy oil' is coming to an end."

Given current global supply and demand, however, the Soviet export cut, representing less than 2 percent of world oil production, has little effect on world oil prices.

Soviet crude oil production has been running at about 11.9 million barrels a day, compared to U.S. production of nearly 9 million barrels a day. The combined production by the 13 members of the Organization of Petroleum Exporting Countries is just under 15 million barrels a day.

This is less than half the cartel's capacity, and several currency-hungry members are eager to break the cartel's rules by taking up any slack in Soviet oil exports.

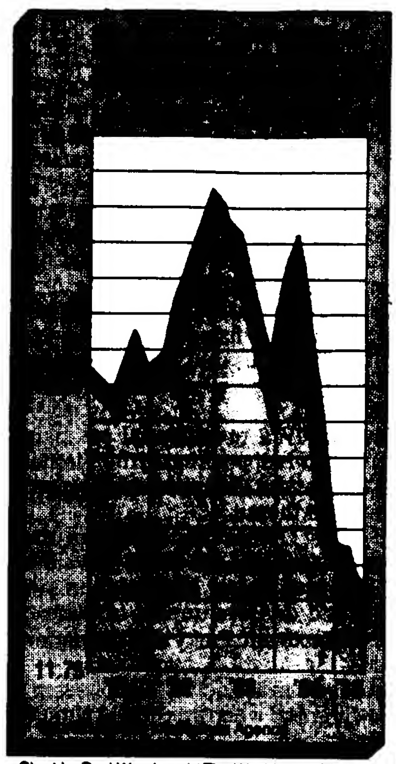

Chart by Paul Woodward / The Washington Times